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September 11, 2006

#### **AGENDA ITEM 4**

#### **TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE**

- I. SUBJECT:** 2006-2007 Performance Plans for the Chief Investment Officer and Senior Investment Officers (Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Approve the 2006-2007 Performance Plans for the Chief Investment Officer and Senior Investment Officers for Alternative Investments, Fixed Income and Global Equities
- IV. ANALYSIS:**

The Board of Administration's Compensation Policies and Procedures include a schedule for approving performance plans for the coming fiscal year. The performance measures which comprise the plans are either quantitative (performance against specified quantifiable standards) or qualitative (related to level of achievement on non-quantifiable key objectives).

The performance plans for the Chief Investment Officer and Senior Investment Officers for Alternative Investments, Fixed Income and Global Equities are presented with this item for second reading and approval. Performance plans are not included for the Senior Investment Officer, Real Estate or the Senior Investment Officer, Asset Allocation/Risk Management, since those positions are currently vacant. New plans will be submitted to the Committee when the positions are filled.

The Chief Investment Officer added a qualitative measure relating to *Leadership* to this year's plans, designed to elicit team building and leadership among the investment staff. In addition, changes have been made, subsequent to the first reading of the plans in June, to incorporate two enterprise-wide objectives into the Leadership performance measure. The enterprise-wide objectives mirror shared objectives on the 2006-07 plans of CalPERS senior managers outside the Investment Office.

The policies provide for the Board's investment consultant to review all proposed quantitative performance measures in the plans of the investment management positions prior to their presentation to the Committee. Attached to this item is an opinion letter from Roz Hewsenian, Managing Director of Wilshire Associates, confirming Wilshire's review and including recommendations for future improvements.

Ms. Hewsenian's recommendations included 1) the need for a Total Fund Investment Implementation Plan that achieves the Total Fund return; 2) the need for internal consistency between the Board's Total Fund Investment Objectives, the policies, performance objectives, incentive compensation plans and performance reporting; and 3) concern that the quantitative measures are too finely parsed, especially at the SIO level, and should be consolidated. Ms. Hewsenian points out, however, that actions currently being taken will ultimately lead to the resolution of internal consistency issues and the consolidation of the quantitative measures. Russell Read, Chief Investment Officer, has reviewed the recommendations and concurs.

**V. STRATEGIC PLAN:**

Under Goal II of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. Under Goal IV, the organization is dedicated to effectively utilizing its resources, including a diverse, creative, motivated, high performance workforce. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

**VI. RESULTS/COSTS:**

The establishment of performance plans is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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Chris O'Brien, Chief  
Human Resources Division

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Gloria Moore Andrews  
Deputy Executive Officer – Operations

Attachments

**2006-2007 Performance Plans for the  
Chief Investment Officer and Senior Investment Officers**

Performance plans for the 2006-2007 Fiscal Year for the Chief Investment Officer and Senior Investment Officer positions are presented for second reading on the following pages, in the order listed below.

<u>Position</u>	<u>Current Incumbent</u>
Chief Investment Officer	Russell Read
Senior Investment Officer, Alternative Investments	Leon Shahinian
Senior Investment Officer, Fixed Income	Curtis Ishii
Senior Investment Officer, Global Equities	Christy Wood

The plan for the Senior Investment Officer, Real Estate, is not included because that position is currently vacant. The plan for the Senior Investment Officer, Asset Allocation/Risk Management is not included because the incumbent is retiring this month. New plans will be submitted to the Committee when the positions are refilled.